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development of a windfarm portfolio. The company is currently reviewing bids for the offtake of the power.

Waste news

Alliance & Leicester has been mandated to arrange a £100m

financing for **Blossense's** 400,000 tpa waste to energy plant at Hooton Park, Merseyside. The site is next to the Manchester Ship Canal and will use heat and steam to sort waste into recyclable components or biofuel. The site

of the project has been moved due to delays in putting the scheme together. The company is run by German nationals. It is not clear if the scheme has any waste contracts yet.

North Yorkshire County Council and the City of York

has gone out to OJEU on their waste treatment contract. The scheme will total 500,000 tpa and thus be one of the larger private finance initiative (PFI) waste deals. The contract is due to be awarded in late 2010.

Sign of the times

The London Borough of Barnet is seeking a new way of raising funds for infrastructure, based on central government ideas for allowing local entities greater freedom in raising money. On a much bigger scale, the Scottish National Party (SNP) minority government in Scotland is seeking to establish a Scottish Futures Trust to provide cash for its infrastructure programme. And the £10bn Crossrail scheme in London appears to be set to go ahead, backed by business rate funding. What all these schemes have in common is a use of general government revenues, as opposed to specific project cashflows, to fund specific asset developments.

Barnet has produced its Barnet Financing Plan (BFP), in association with PwC, in response to the government invitation to produce innovative financing solutions for its needs in the run-up to the pre-budget report in December. The council is proposing to lever in extra up front funding through an arms-length body, the

Local Growth Fund (LGF).

The borough is proposing to ring-fence various future revenue streams to provide the upfront funds. This investment would help the area grow, boosting future revenues further. In the past, the Treasury has been against this so-called hypothecation of revenues, preferring instead to collect all taxes in one big pot. Barnet says 34% of the annual revenues it has earmarked are under its jurisdiction.

"The remainder require government support to allow greater flexibility in capturing revenues arising as a consequence of economic growth," said Barnet's report. This could include stamp duty on housing. The local revenue streams would total £30.4m pa, including supplementary business rates £6.1m, future stamp duty revenues £5.2m, ring-fenced council tax and business rates £10.1m, a renegotiated lease £3m, and a car park levy £6m.

The total revenues could support £361m of prudential

borrowing, towards Barnet's £733m 2020 infrastructure plan, or £162m of project finance borrowing. The money would go towards highways, new hospitals and schools.

"These revenues would then effectively be securitised to raise finance from either public or private sources, which can then be used to procure priority projects," said the Barnet report.

LGF would be a special purpose vehicle (SPV) which would not expose the borough to project risk. This would be achieved with "a shortfall agreement provided by the government, which provides a private sector lender with significant comfort to allow the LGF to raise finance from hypothecated revenue streams", said Barnet. The shortfall would "guarantee the revenues would not fall below a stated proportion of the hypothecated amount, estimated at 50%-70%".

Another way to provide a guarantee would be through Barnet council development sites but the council has sold of

most of surplus land already.

The council produced two examples of how the structure would work. The first involves the primary schools capital investment in the borough. The deal would follow an established private finance initiative (PFI) procurement framework with delivery risk transferred to the private sector. The LGF would simply provide additional hypothecated revenue.

The second is more novel. It is a bridge financing to pay for upgrades to the waste water system. Barnet would provide Thames Water with a bullet loan that the company would use for specific improvements and then repay over time in the normal way, "ensuring the recycling of this money back to BFP". Thames Water would own and run the assets created.

Barnet is looking at either running the LGF internally or bringing in a specialist private sector partner to deliver BFP. If approved locally, the council would then look at putting together a full business plan.

First test result due

The result of the first funding competition under the Treasury's new guidance should be known after September 24. Four banks, believed to include AIB, Bank of Scotland and Helaba, are bidding for the £75m mandate on the St Luke's mental health hospital scheme in Middlesbrough.

Laing and Laing O'Rourke won the scheme at the start of the year. PwC is organising the funding competition. The client is Tees Esk & Wear Valleys NHS Trust.

Two left for Kent

Land Securities Trillium and Skanska/RBC are left in the bidding for one of the largest Building Schools for the Future (BSF) deals – the £600m Kent scheme. Laing O'Rourke has been dropped. The deal is mainly a design and build procurement but does have some private finance initiative (PFI) contracts included.

FSTA competition still on

The competition for the £2bn FSTA mandate is still on, despite comments from the CFO of VT Group last week that the scheme would be bank-financed. VT is one of the shareholders in the **AirTanker** consortium. There is one all-bank group bidding for the mandate and two bank/bond groups (PFI issue 368).

Deutsche Bank has told all the groups that the competition is still on. Bids are due by the end of the month. It is clear that pricing a bond deal the size of FSTA's is very difficult right now but at the same time, the commercial banks are asking for higher pricing on their packages, perhaps less underwriting risk and market flex clauses. The latter would be